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WHAT'S THE MATTER WITH FIRE INSURANCE

What's the Matter with Fire Insurance

By

C. A. McCOTTER

INDIANAPOLIS
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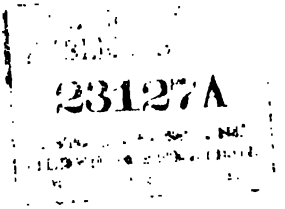

FOREWORD

THE writing of a book must be from some motive, which it is always well to know. This is my thirty-fifth year in the insurance business, thirty-three years of which were in mutual fire insurance, one year was as local agent, and one year was in compensation insurance in its early history. It is only fair to state the two years were the panic years of 1892 and 1893, and the results are not a pleasant memory. I have been through the ups and downs in mutual fire insurance, and have a feeling that a better foundation in the business was acquired through the struggles for five years with a bunch of small mutuals which failed, than has been learned in the twenty-eight years' connection with easy-

going successful mutuals. A consideration of the "tail" side of a coin is as valuable as the "head" side, as the "tail" side will win as many bets.

It is said that now is the time to guard against the revolution of radicalism. This should be by improvement of defects. I started out to find some critically constructive literature on the fire insurance business, but found none. Not since A. F. Dean, about twenty-five years ago, wrote the *Rationale of Fire Rates,* has any one discussed the provincialism of the fire insurance business. Mr. Dean claimed the rating system followed was wrong in theory and practice. This, of course, was denied, but Mr. Dean had the ability to convert the fire insurance fraternity, to the great advantage of the business.

It is with chagrin that the fire insurance man notes how his business in its fine points is ignored by the layman.

No "insured" has stepped forth with lengthy praise of the fire insurance system. A prominent banker has just published a book, which commands the greatest of attention, on the constructive action needed in all lines of business, and utterly ignores that fire insurance has any part to perform. It is true there occasionally arises in the "press" a self-made discussion of insurance for the purpose of demoralization and not for development. The insurance business has scores of insurance journals, supported by advertisements paid for out of the premiums of the policy-holders, and yet not a one that advocates the insured's side of the business, or that supports a proposition which conflicts with the pet standards of its advertisers.

Oh, that another Edward Atkinson would arise with a vision that extends outside his own interests, and with a

power to lead by example as well as by argument.

But all this is digression. With no critically constructive insurance literature to be had, the only course was to produce some. Therefore, I tried organizing some of my own ideas, and have put them in print for the comments of my friends. Critics will not need an invitation. According to the stars the time is ripe for a book of the kind. With Mars in eclipse and Mercury only above the horizon and the horoscope readers predicting the entrance of bolshevism into the constellation of the twin stars—Castor and Pollux—which will cause one of those stars to explode and push the other off the map, why should we not recount our sins and prepare for the day when the heavens will become properly adjusted and man will use his senses?

The book must speak for itself. It

is crude, and at times irritatingly direct, as would be expected of a business man. It violates literary standards and ethics. It is too general to be conclusive, and is more suggestive than argumentative. The book is evidence that the midnight oil was not burned, while delving deep in documents to secure the purest gems of evidence. The writing was done at such moments as I could evade earning my salary. But, with all its faults, there is the hope it may do some good. It may move some of the leaders in the insurance business to step out of certain ruts and guide the way to a better path. It may induce some of the bright brains in the business to present a clearer analysis of the possibilities of insurance. It may influence the insurance fraternity toward taking as much pride in the accomplishments of the business as is now taken in the assets obtained. Or it may

strike an immovable rock of provincialism. Time will tell.

C. A. McC.

Indianapolis.

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WHAT'S THE MATTER WITH FIRE INSURANCE

What's the Matter with Fire Insurance

CHAPTER I

INTRODUCTION

WHEN the World War started, it was the beginning of the greatest twenty-five years in history. Like all wars, it was to upset established conditions, create demoralization, and test the moral make-up of the human race—collectively and individually. Each one of us will undoubtedly die financially poorer than we otherwise might, but already we have been through the strain of unsolved problems, and have more to meet, which will develop a moral fiber worth more

to us than money. In the six years already passed we have not accomplished the anticipated, and we have no foundation upon which to predict the future. Affairs are still in our hands unformed, and what are we to do with them?

Panaceas are offered on every side. We are told, "We are entering a new world," but no one is able to prove what it is to be. Some say, "Conditions will never again be the same," but they give no adequate prediction of what they are to be. Reform is in the air, not to rectify but to revolutionize. So far the medicine prescribed has not produced the result anticipated. Nature seems to throw it off and work according to her own laws, and the return to "normalcy" is to be more natural than artificial.

The "unrest" we hear so much about seems to attach chiefly to business, which is the transactions on

which human existence depends. Many would jeopardize that existence to experiment on some new method, entirely forgetful that business, as it is conducted, is the experience of many generations, with improvement according to the length of experience. Many times in past decades have the established principles of business been violated and just as many times has that old law of supply and demand been the length of the rope by which business could wander. We can well expect business to be conducted under about the same conditions as in the past.

There were lessons learned by the war, and much advantage would be had if the lessons were heeded. To the writer, one of the great lessons seemed to be the advantage of cooperation as against competition. What a wonderful exhibit by the people of a cooperation that won the war.

Aside from the soldier at the front and the sailor on the sea, none gave more cooperation than the representatives of business. Those representatives seem now to be continuing cooperation through an enlargement of the Chamber of Commerce of the United States.

This national Chamber of Commerce has given insurance a recognition it has never had. Insurance is granted a place as one of the eight great divisions of business. It is well that this should be done. Insurance is a necessary part of thrift, prudence and business. It guards the spinal cord of, and gives backbone to, commerce. It is to be hoped that through this connection with the national Chamber of Commerce, insurance will be better understood by the public.

It must be admitted that various forms of insurance, particularly fire

and casualty, are subjects of criticism by the public. Insurance is in about the same position in public estimation as the packers and grain exchanges. Though the public be wrong, the fact of opposition remains. Is the misunderstanding one-sided? Rarely. In the estimation of the writer, the cause is largely due to the method of presenting and conducting insurance.

Every one has experienced the visit of the insurance salesman, and will recall that invariably attention is directed to the certainty of death, the increasing number of automobile accidents, the carelessness of workmen, the unexpectedness of fires, and how, for a specified small sum a large sum will be paid in event the misfortune happens, and thus all worry and responsibility will be eliminated. The presentation ends there. No wonder some have a conception that insurance is merely a gamble or that the

company is only an agency to collect from the many for disbursement to the unfortunate few. No wonder many have the conception that the functions of an insurance company are so simple the state can conduct the business. The problem is whether the public or even the majority of those in the insurance business have an adequate conception of insurance and its possibilities.

CHAPTER II

FIRE INSURANCE

LIKE all other business, insurance as it exists is the development of generations of experience. Like all other business, there has been a great improvement in insurance over the simple form in which it started, and it has been well adjusted to the complications that arise in the large volume of transactions now handled. The business must continue to grow, and, under the logic of the past, there must be more complications, which will call for further improvement.

The aftermath of the war includes many reforms. Only those will live which better the needs of the people. One of the so-called reforms is the

regulation of business. "Big Business" seems to give that problem more attention than any other. One of the primary motives in building up the Chamber of Commerce of the United States appears to be to meet the problem of regulation. The action taken will undoubtedly be to lay the cards on the table and show that regulation is not necessary and would not result in a betterment.

The seed of regulation was sown before the war and the present rank growth is due to control allowed the government during the war. There long have been attacks on business, particularly railroads and insurance, with unnumbered regulatory laws. A fair analysis of those laws, however, will show that they were largely due to the inability of the business properly to regulate itself. The Standard Policy is the outcome of the conflicting and frequently unfair conditions

the various companies used in policy contracts. The fire marshals would not be in existence by indirect taxation of the insuring portion of the public, if the companies had taught prevention as much as they have preached indemnity. Fire insurance seems to adjust itself to conditions more than it prepares for conditions. It lacks initiative.

For illustration, there probably is more prejudice against fire insurance from the policy conditions and adjustments thereunder than from any other complaint. The policies are full of "thou shalts" and "thou shalt nots" until the courts are practically excusing a man for not reading them. The assured, particularly at the time of a loss, is skeptical of a contract drawn and signed by only one party to the contract. A decade or more ago such skepticism might have been justified, but not to-day. The trouble is that the

public has too many old ideas about insurance and not enough that are up-to-date.

The facts are that in many states the statutes describe, even to the size of the type, all of the conditions of the policy to be used in that state. In all other states the Standard Policy of some state is used by the insurance companies. The policies in force to-day are not drawn by the insurance companies. They are contracts made by the citizens of a state, incorporated in the statutes, to govern their own insurance conditions. Then it follows that the insuring public has made its own insurance contract to which the insurance companies are required to subscribe. If there are disputes in interpretation of the contract, the courts can not well question the motives of the insurance companies.

Therefore, to correct the adverse opinion as to insurance contracts, to

throw the responsibility where it belongs under the contract, and to simplify the contracts to the insured, why not merely issue a certificate binding the insurance in accordance to the laws or the Standard Policy of the state? In Michigan, the certificate would only state that in consideration of ..... dollars premium the insurance company agrees to indemnify ..... against loss by fire for a sum not exceeding ..... dollars, under the conditions imposed by the laws and Standard Policy conditions of the State of Michigan. That is all that is done to-day in the bulky policy which is furnished and not read and little heeded. The State of Michigan will, when wanted, furnish its citizens with a copy of the insurance laws and a sample policy. Disputes would still go into the courts to be argued on the same basis of the facts and the law, as they are argued to-day.

Such a proposition, or any other proposition, of simplification of the millions of transactions each year between property owners and insurance companies has not, to the writer's knowledge, been advanced by the insurance fraternity. It has taken a layman to advocate a system better adapted to his need. He inquired if the "binders" frequently issued were legal contracts. He was answered, "Yes." Then he inquired why could not binders be issued to him for twelve months as well as for one month. This would be convenient in filing, save postage, and save the space required in safe or safety deposit box. If he wanted to know more about the contract conditions a sample policy could be sent to represent the thirty or forty policies he had of different companies, all of which contained the same policy conditions.

Will such a change be made for the

convenience of patrons who would be satisfied and gratified? According to past records it will not. When some active brain, seeking glory in the legislature by further regulation of fire insurance, pleads for simpler and better controlled contracts and a law is passed, then the fire insurance business will accept what it ought to initiate, and be gratified as it is over the better concurrency of Standard Policies.

Innovations are not needed, however, as much as some old methods need improving. E. W. Howe passes judgment according to Bulk Opinion. Bulk Opinion is the opinion of the majority of the people. Whether such opinion is right or wrong, it is the opinion with which fire insurance has to deal. The common opinion that one must wait for the adjuster is not as detrimental as is the common opinion that the insurance company is the

one "stuck" for a fire loss, and to wink at "errors" beneficial to the insured. The payment of losses is the same incident in the insurance business as in banking is the payment over the counter of a part of the deposits received. Not to know this is to be ignorant of the *a b c* of insurance. The people are ignorant about insurance, and, in self-defense, now is the time for the fire insurance business to educate them.

The writer organized a company with the motto "Take the mystery out of insurance." The fieldmen were instructed to point out fire hazards and the folly of their existence; to show the make-up of the rate, and the why of each charge; to argue the right of the insurance company to dictate if it carried eighty per cent. of the liability; to illustrate the responsibility of the assured for the fires, as he had full charge of the property, and

his supervision determined the insurance cost. The idea works much better than to point out the carelessness of workmen, hence the need of more insurance; to say you do not know why the rate is so high, but the other agents charge the same; to give assurance that if a company complains and cancels, others will be tried until a policy sticks; and to infer if the special agent's inspection does not prevent a fire, there is nothing more to be done. The wasted effort is appalling in the amount of soliciting of policies which do not stick and in the amount of cancelled and rewritten business. It is expensive to cancel a policy that has been put through the books.

It is the nature of education that forms the character of public opinion, and the nature of the past insurance education has been the source of most adverse insurance legislation. The

motive of insurance is worthy; why then an attitude of regulation, which is so conspicuous? It is partly due to a past period, when rates were unduly high, adjustments produced salvages, and apparently there were organizations only for the insurance companies' benefit. All this may be as unreasonable to-day as is the grudge in our hearts after reading about the Revolution our great-grandfathers fought. But is there not something of later date? What is the conception of fire insurance in the mind of the common people and of the common politician? Rarely can they define it further than as a system of collection from the many for the benefit of the unfortunate few. On the surface, it appears a form of gambling, with adequate rates as loaded dice.

Unfortunately, there are many men making a living by insurance who do not seem to have a better conception

of the business than does the ordinary layman. Assume an ordinary transaction for one thousand or one hundred thousand dollars. The insurance sought is an increase or an expiration. The introduction is personal good-fellowship; because the companies represented, through state authorization, have no individualism worth mentioning. The policy form has been drafted and approved, or if made new, copied from other sample forms. The rate is furnished by the rating bureau. The policies are issued, delivered, and premiums collected. The property owner becomes more concentrated in his business, assured he will be indemnified for a fire loss, whether occasioned by indifference or not, with costs just the same in any case. As if to prevent the property owner having anything at stake, "side lines" are being introduced against the profits and incon-

venience to business he has heretofore carried. This is an inducement to shift the last interest in care of the property.

With the insurance placed, then comes the inspection by the different special agents. These inspections are made in the interest of the insurance company: to ascertain if the rate seems adequate to the hazard; if the size of the line and the distribution of the insurance is satisfactory; if the conditions seem favorable to make a profit. Such inspections touch little on details and the reports rendered are brief. One recommends cancellation, another a reduction of the policy. One recommends a change at expiration, another to seek an increased line. The majority of reports will approve the business. This variety of underwriting judgment is good for the insurance business, but it is purgatory for the assured. It is an illustration of

the truth of the statement that the business is not standardized.

The many notions about the conduct of the fire insurance business may keep it out of a fixed rut, but there is a need of a more studious consideration of its vital services. The heavy mortality among fire insurance companies is evidence that Security, Stability, Equity, Harmony and Fire Prevention have either not been sufficiently understood or have not been efficiently followed to give proper protection to the people. The security, for which fire insurance is used, is too serious a matter for every Tom, Dick and Harry "know-it-all," or amateur insurance man to experiment with at the people's cost. If the business is not a science, it at least is the accumulation of experience and should have "experience" to handle it.

CHAPTER III

SERVICE

IN DISCUSSING service with an old-timer, he warned against there being as much crime committed in the name of service as there has been committed in the name of liberty. Service is a word in the mouths of many, who have never looked in the dictionary for its definition. It is a word becoming common in fire insurance lingo. Frequently the inference is that service is something performed gratuitously, which invariably is of small value or duration. The dictionary inference is a labor performed for a compensation, which every one is willing to pay if the labor is valuable. Service is pretty nearly a synonym for quality.

The employee is not compensated merely for his time. The amount of compensation is based upon the quality of the service. We incline our trade to the merchant whose quality of service we like as well as his prices. We think of guaranteed mileage on tires as increased service. In these and other cases we know that we pay the cost of doing the business, for it is a well established business axiom that "The consumer pays the bill." Then what influences our patronage? We are actuated by the common human trait of wanting all we can get for our money. In the past we went to the clothier and closed the bargain after he had added a pair of suspenders and a silk handkerchief, but today we get alterations—service—to make a better fit.

Has fire insurance much in common with the motives of general business in rendering service that will cultivate

patronage and make better satisfied patrons? The business should give attention to service, for it really has nothing else to sell. The capital stock or contingent liability it does not use in the business. The economic law of supply and demand hardly applies to it. Growth depends upon creating a demand, which can be cultivated by service.

The primary purpose of fire insurance is to furnish indemnity and it can never be complete without that function. The question is, whether that is the chief function, or should it be only the guarantee against failure in a greater purpose? The needs of war called for conservation of values that could be used for war purposes. The destruction of values had to be replaced by a detrimental readjustment of other values, and the indemnity of insurance was thereby not a factor in carrying on the war. The insurance

fraternity recognized this and proffered its service in fire prevention. This was accepted by the government, and fire insurance was effective in helping win the war. The effect of that service is the lesson fire insurance should study for the future.

Fire insurance should be so conducted as to control or to reduce losses, but statistics are used to show that there is no decrease of losses, which would call for any reduction in the insurance rates.

Insurance deals with the "physical element" and the "human element," the more important of which is the "human element." Marine insurance is said to be based on three factors: first, the operating personnel; second, the harbor facilities and routes traveled; third, the construction and seaworthiness of the ship. Fire insurance reverses this by giving consideration first to construction; next, occupancy;

and lastly, the operating personnel. As the property is not insured, but instead the owner insured against financial loss by fire in the described property, it would seem that the operating personnel should have first consideration. The whole transaction in fire insurance is with the human element, but the basic conditions are made to deal with the physical element. Two properties of the same age, construction and occupancy can represent the opposites as to potential probability of a fire loss, and both, by the human element and not the physical element, can be brought to the same condition of a probable fire occurring or not occurring.

If improved results are not being obtained through dealing with the physical element let us consider some possibilities through interesting the human element in the great possibilities of fire insurance. The human element means human nature, and the

problem is to keep in accord with the ordinary functioning of human nature.

Meaning at all times the predominating trait of men, it can be said that the assured is willing to do what is to his advantage and no more. He is willing to make improvements that affect his insurance cost, though he afterward neglects them. He is willing to look after these rate reduction improvements if the inducement is sufficient and control requires, though he prefers to throw supervision on to the insurance company. That the assured will adopt the means and take an interest in fire prevention, when he is shown the advantage, is demonstrated in many cases, where individuals, having control of large values, are carrying out ideal conditions for insurance, with rightful concessions in the insurance cost made them.

The indifferent attitude of the prop-

erty owner toward his insurance obligations can be easily traced to his education in the past. The absurdity that the insurance company can with better economy assume responsibility for fire losses is evident when one realizes that the assured has full control of the property more days in a year than the insurance company can give it attention in minutes. The property owner needs to recognize that he should insure himself, and the indemnity he buys from the insurance company is only the "hedge" that the grain dealer buys against fluctuations in the price of grain he is handling. There is no question about the low cost that could be made for indemnity if it applied only to losses where due care had been used for prevention.

The practice of carrying insurance is well established, but the assured is always interested in the cost to the extent of cutting down the amount of insurance carried when he feels that

the cost is too high. He is a co-insurer to the extent of the uninsured portion of the value, and should be a co-insurer on the full value, for he pays the cost, whatever it may be, due to fires. Then why not encourage him to take a proper interest in his property? A plain statement of the fundamental principles of fire insurance will convince any man that it is he and the associates forming the group insured in any insurance company, who are responsible, by construction and housekeeping, for the fire losses that occur, and are responsible for the insurance cost. When so "touched in the pocket," any man will be interested in fire prevention, not through the fire marshal, but through his insurance company, if it will give the needed service.

"But," says the insurance company, "it will make the cost still higher to give the needed service to each policyholder." The National Board of Fire

Underwriters, the Underwriters' Laboratories and the National Fire Prevention Association do not advance that argument. The work of those organizations is worth the cost, but has been confined too much to "standards" on which credits in the rate can be made. These are good, but improve only the physical element, while cooperation of the human element is the greater factor needed to accomplish fire prevention. At the best, those organizations have hardly made a dent in their purpose, because the business-getters follow the lines of least resistance and do not endeavor enough even to secure "standards." This is evident from the advertisement of a leading company, which reads, "What is the use of creating perfect facilities and painstaking service for buyers of insurance, if the local agent will not use them continuously and intelligently?"

Allowing there is an expense attached to service, two points are overlooked: first, that the insured pays the cost; the next, that there is a value in fire prevention. The fire insurance business is forever apologizing for or defending the "expense ratio," when all that is at stake is the insurance cost. One does not buy merchandise and take into consideration the percentage of raw material, labor, and handling charges that make the price. Neither does the insurance buyer. Value received for the cost is the test. A statement of the Philadelphia Contributorship (a mutual company) shows an expense of about eight times the amount of losses, but as the insurance cost to policy-holders is one payment of a nominal premium and nothing afterward, what interest has a policy-holder in operating ratios?

If inspections are of value to the insurance company they certainly can

be made of value to the insured. If the probabilities of a fire are of interest to the insurance company, they certainly are of interest to the property owner. There is a cooperation needed that does not exist to-day, under which the cost of "inspection and selection" will be carried to its completion in fire prevention. There is no reason why the maximum of service should not be given if it pays. There are many mutual fire insurance companies which have demonstrated the value of cooperation by the policyholder in fire prevention, with a resulting reduction of the insurance cost. What may be the loss ratios and expense ratios of those companies is not material. All companies on the large valued properties are interesting the insured to his advantage and a corresponding advantage to the insurance company.

The insured pays his premium for

protection against the misfortune from a fire, and, if worthy of insurance, is more interested in and benefited by not having a fire. Why should he not be taught the conception that insurance is a service valuable in preventing a fire and guaranteeing indemnity if there is a failure of the purpose? This would overcome the old complaint that in insurance one has to lose in order to win. The insurance record of the past, time and again, has proved that a man's work is cheaper than a fire's work.

The other side of the story is that the assured will want the benefit that comes from any reduction of fire losses. He is entitled to reduced rates, for he is loaded with increased rates when losses are excessive. The mutual company has the advantage of being more flexible in making an insurance cost according to its experience, through being more individual-

istic in operation than are the stock companies. In the past, rates have been changed according to experience or competition, and there is no good reason why there should not be future changes recognized by the insurance companies and rate regulation authorities, where groups or classes of policy-holders have a fire loss experience that is different from the experience upon which their rates were made. A merited reduction in insurance cost to any group or class of policy-holders is an inducement and not an argument for any other group or class to seek the same result.

Is all this argument mere theory? It may be, but the need to-day is an applied science of insurance. Insurance can not continue to be an institution only to stand between prosperity and a calamity uncontrolled. It must be something more than a taxing power for the readjustment of

business equilibrium put out of balance by fire. It needs to be the stabilizer of business by a system of conduct that will reduce the fluctuations of fire calamity, both for the individual and the community. Fire insurance should make claim of improving conditions, but its statistics do not show reductions in the fire loss ratios.

The property owner is taught to fear the results of fire, but to trust in insurance. Fire insurance says to business, "We are your bulwark for we are prepared to collect from you enough premiums to meet any calamity." Representatives of fire insurance are on record as asserting that fire losses were not their affair. Losses advertised the need of insurance and the insurance business meant the collection of enough premiums to pay the losses. No wonder this country leads the world in the fire loss ratio per capita.

E. W. Howe says the only reform in which the people are really interested is a reduction of taxes. Insurance is considered a form of taxation on the conduct of business. If fire insurance is to be a matter of investigation with a view to regulation, what answer better than to demonstrate the matter is already in the public's hands? Under state insurance the public will, by its individual and public attitude and action, make its own insurance cost as it does to-day. To reduce the cost, it must improve upon the methods of the insurance companies. Years of experience have demonstrated the present fire insurance system is the one best adapted for distribution of losses, and improvement then must be in the form of service, which is not a subject for regulation. It is not a reform. It is only a further improvement in the fire insurance business.

CHAPTER IV

STOCK FIRE INSURANCE COMPANIES

THE delight of meeting a stock company representative is the inspiration of his self-assurance. In any talk of shop he immediately refers to his "capital." All arguments start from or lead back to it, and the beginning and the end are about the importance of having a capital. If one harps enough on one thing, his belief will make an impression on other minds. For decades the stock company advocate has harped on the advantages of a capital, until, it must be admitted, the public has been impressed, and the poor mutual man, hat in hand, has stood aside admiring and almost wishing that he, too, had a "capital" to

dangle before the eyes of the insuring public. It is only the hard-hearted man who at this late date would speak disparagingly of a brother insurance man's hobby.

Occasionally the stock man will admit that his business is like the mutual company in principle, except that his business has a capital. That statement analyzes the business, but not the capital. The capital of an insurance company is nothing like the capital of a commercial or an industrial enterprise, whose capital is invested in fixed assets or kept in liquid form for use in trading. The laws require that the insurance capital shall be kept intact in convertible securities. It is not used in the business, even to buy the furniture, (a non-ledger asset). Some will say that the surplus, paid in with the capital, pays the organizing expense, buys the furniture, and establishes the plant. But

when that surplus, in the course of business, again equals or exceeds the original surplus, can it be said that those expenses did not come out of the premiums of the policy-holders? Then why the capital? The answer is security to policy-holders. But the policy-holder is able to, and does, take care of himself. Year in and year out the premiums of every company, of value in the business, pay the losses, expenses, dividends and add to the surplus. Then why should these premiums pay dividends on a capital of twenty to one hundred per cent. of the yearly premiums, which are adequate to pay everything? The answer seems to be as protection in conflagrations. Such a protection is desirable, but there is a legitimate demand by the fire companies that five per cent. be added to the basis rate of all premiums as a conflagration buffer. In twenty years "capital" will not be

a comparison to what this conflagration fund could be—taken from the premiums of the policy-holders, the bulk of whom need no protection against conflagration.

If capital is to form the security behind the policy contract, why is not sufficient capital used so as not to require contributions out of premiums to make a surplus? It would make the insurance cost less, for the fire insurance business has larger assets in surplus than in capital. To whom does the surplus belong, and how is the five per cent. conflagration fund to be preserved for its purpose? Does not the insurance company claim it for such use as the occasions require and appropriate it when retiring from business? It is an open question whether the surplus, particularly a conflagration fund created by a cost in the basis rate made on all policy-holders and collected by com-

panies which do not insure in congested centers, should not in some way be held for the benefit of the insuring public. Should a company be permitted to sell out and retire as they do and appropriate the surplus it is claimed is accumulated for the better protection of the policy-holder?

Does a capital make the business more secure? It is estimated that of the stock fire companies in existence during the past fifty years approximately one-sixth the number are in existence to-day. It would seem that more capital were needed safely to conduct the stock system of insurance, if "capital" is a fundamental factor in the fire insurance business. The fact is, there are more companies wound up through unsuccessful management than from conflagrations and all other causes.

Why this harangue about capital and surplus? Merely to take some of

the wind out of the sails of a certain element in the business who get on the wrong tack out of the true course of insurance, and do not recognize that the days are fast fading to argue capital as a leading factor in insurance. The "capital" is a desirable factor in the stock system of insurance to give it motive to seek a profit wherever insurance is needed. This is somewhat illustrated in the case of the two oldest fire insurance companies in existence in America. Both are located in the old city of Philadelphia. The Philadelphia Contributorship, a mutual organized in 1752, has accumulated assets by which, on perpetual policies, it pays losses and expenses and pays a handsome dividend to policy-holders after collecting but one nominal premium or deposit when the policy is written. But the business of the company always has been confined to Pennsylvania if not

to Philadelphia. The Insurance Company of North America, a stock company chartered in 1794, has followed the practice of paying dividends and adding to the surplus out of the premiums, so that it has to collect a new premium every one, three or five years. But in 1796 it advertised in Boston that it would write fire insurance anywhere in the United States. This it has continued to do to this day, serving the people under thousands of conditions the mutual companies could not reach or touch. The great virtue of the stock system is the insuring of anything located anywhere needing insurance, if satisfied with the rate. The mutual insurance system deals with the specific proposition through complete attention to details. The stock system deals with the whole proposition under the law of average, and hence is more universal in its use.

A capital calls for a dividend, or there would be no capital. The mutual companies are forever throwing stones at the dividends as if that were the weak link in their competition. It does not interest the property owner, who is looking only for the results which give him the most for his money. If the dividend is all that represents the difference in the two systems, then the dividend is too small a per cent. of the premiums to be an influence in competition.

Capital does serve as a protection to the policy contracts in the early history of a company, until sufficient surplus is accumulated out of the premiums. It also has another valuable function. The success of a business is not dependent upon its assets, but on its management. The directors of a stock company invariably are of the stockholders and have a financial interest at stake. They select the

management according to ability and pay the price necessary to secure skill and experience, and hence the caliber of the management in the stock business is of high grade, and the business has been successful as regards the stockholder, but it does not get down close enough to the policy-holder.

The insurance business is presented to the insuring public too much in statistics, ratios and averages, which are not comprehended and sometimes are confusing. What layman can harmonize a rate increase to produce a two or three per cent. profit on the premium, and know that twenty to fifty per cent. dividends are paid on the capital? The use of statistics is shown by the promoters of new stock companies. A prospectus at hand solicits $2,500,000 for use in the fire insurance business of "enormous profits." Fifteen per cent. will be consumed for organization expense, leav-

ing $1,125,000 for a surplus and $1,000,000 for capital on which the dividends need to be adequate returns for the $2,500,000 invested. The profits, of course, come from the premiums, for which the statistics given for 886 (sic) companies show less than $1,000,000 per company, with assets of less than $1,716,000 per company. Many is the old-timer with an established company and years of experience, who would like to know the secret to be used and spring full fledged to 195.7 per cent., (ignoring increased reinsurance reserve), net income to capital. But then, these are days when the talk is in millions, where the conservative past used hundreds of thousands, and the old-timer has the consolation that the smaller sums did not have periods of deflation. But what of the public attitude if statistics used in the business do not prove reliable?

The fire insurance business needs to be organized and conducted for the benefit of the insuring public. With any acknowledgment that the business is mutual in principle and that the policy-holder furnishes the protection through the premiums, then it is evident that with the loss ratio fluctuating year by year, a surplus is needed to provide against the ordinary fluctuation. The record seems to be that the surplus is accumulated and kept, while the fluctuations are made in the rates. Without statistics one can question that the surplus in the fire insurance business ever decreases except by conflagrations. This applies to mutual as well as stock companies. At the first sign of increased losses, the mutual raises its assessment and the stock company its rates, always trying to protect the surplus from the very purpose for which we claim it was created. If the sur-

plus were made to fluctuate, then the rates would be the thing stabilized, with much satisfaction to the insurers. The writer, in his day, has placed more mutual insurance due to the fluctuations in rates and the ignorance of local agents than from any arguments about mutual principles.

The fire insurance business needs to study more the economics that will reduce the premium. Prevention of losses is not the only item. The work of creating equity in rates between property owners is a large expense when done by individual companies, which has led to cooperation in rating bureaus for practically each state. This expense is paid by each company member in the ratio that its premiums bear to the total premiums paying the expense. Note that it is mutual in operation. Also remember that the expense is paid out of the premiums and forms a part of the insurance cost.

There are property owners who feel that the rating bureaus work entirely in the interest of the insurance companies, giving the benefit of the doubt to the companies and hence are prone to raise the rates. Failure of understanding the rating bureaus has contributed to rate regulation laws. But not so much as the domineering attitude of a certain element in the stock company group who assume full ownership and control and use the rating bureau to prevent any competitive advantages to the property owners.

For illustration, the Virginia Inspection and Rating Bureau has the rule that no subscriber may have the assessment (mutual) system, or return, directly or indirectly, any portion of the premium, or "shall hold out to the assured as an inducement to insure any participation by way of dividends or otherwise or interest earning of the company. (The rule

does not apply to dividends paid to stockholders.)" There is no better evidence of the mental attitude of some to form monopolistic conditions in the business, through control of groups of companies, which try to dominate the business. Because they have not the vision as to the magnitude and semi-public utility nature of the fire insurance business, and because of the way the business is presented to the public, there has developed the rate regulation law as a further step toward government control.

There are too many cliques, groups and combinations in the stock field, seeking each its own advantage, and at times making a public exposé, which invariably shows the contention has no benefit for the public. These contentions, however, serve as "peek-holes" into the business. On the other hand, the National Board of

Fire Underwriters represents practically one hundred per cent. stock company membership, and its purpose is a service to the public. One never hears any criticism of, nor finds any laws passed against, the National Board of Fire Underwriters. The claim is made that if the fire insurance business had the same motive of service and the same harmonious cooperation as exists in the National Board, there would be little occasion for adverse legislation, and appreciation would be shown by the public for the full benefits that can be realized from fire insurance.

CHAPTER V

MUTUAL FIRE INSURANCE COMPANIES

LINCOLN said that the Lord must love the common people, for He created so many of them. The common people must love the mutual fire insurance companies for they have created so many of them. In the United States, to-day, there are twenty-five hundred mutual fire companies and less than four hundred and twenty-five stock fire companies. In the settlement of this country, as a community grew, there were organized a school, a church, a mutual fire insurance company, a building and loan association. These were to serve the people for their upbuilding and protection, and when these institu-

tions are attacked as a communism which will lead to the disruption of this nation, the attack touches the heart-strings of sentiment, the history of experience, and creates resentment in the minds of a large body of people.

The early mutual fire company was simplicity itself as an improvement on the gratuitous contributions which were made to the unfortunate fire sufferers. Under pledge, expressed in the policy agreement, each member of the company agreed to pay a percentage of each fire loss. The Board of Directors consisted of citizens, acquainted with each applicant for insurance, and passed judgment as to qualifications for membership and the amount to be insured.

These companies were organized to serve a specific purpose and formed according to the notions of individuals who did not know the technicalities of insurance, but knew what they

wanted. While the various mutual companies could comply with the laws of the various states in which they were located, their systems of operation were so at variance that when there was occasion to use more than one company to insure a specific property, the insured had to be educated to as many ways of insuring as there were companies.

In the course of time, the community idea of cooperative insurance extended to groups of similar interests. There are many such groups that have mutual companies devoted to their special service. These companies insure larger values than the community companies, and when associated in insuring the same property, have had the defect of lacking uniformity in their methods. This led, about eight years ago, to asking the Convention of Insurance Commissioners to help draft a model uniform

mutual law for adoption in all the states. This was done and the model law is already in the statutes of twenty states. The assessment companies have likewise asked the insurance commissioners to approve a model law applicable to farm mutual companies, and the first draft has been passed as a law in Indiana. The mutual fire companies are awakening to the improvement of themselves, as well as the improvement of the properties they insure.

Mutual insurance is founded on the principle of "inspection and selection." First to inspect the conditions, and then to select only those properties which conform to the standards of the company. There is no record as to who originated "inspection and selection," but it is the acknowledged badge of mutual insurance. From the days of the old Hand-in-Hand organized in England in the year 1696 and

of the Philadelphia Contributorship organized in the United States in the year 1752, mutual literature and practice have always advanced the value of fire prevention and its effect on the insurance cost. To produce a low insurance cost through fire prevention is in the life blood of the true mutual company, and not a strain of recent introduction, as in the case of the stock companies.

While all mutual fire insurance aspires to make a low insurance cost, the business is not yet standardized, and there are a number of methods used in trying to arrive at the results. The model companies are supposed to be the Mill Mutuals of New England, which take a large premium deposit and then make a very low cost. The Flour Mill Mutuals use the basis rate of years ago, which is in excess of present stock rates, but the Flour Mill Mutuals take only a six

months' premium deposit and make an annual cost of less than the deposit. The Lumber Mutuals make rates, to produce equity, from a schedule of their own, and the rates are approximately the same as the stock companies, with liberal savings from the rates. The Hardware Mutuals use the various state rating bureau rates and are making increasing savings. Then there are mutual companies that make a differential reduction from the state rating bureau rates, of varying percentages. There is one well-known mutual company that operates like the stock companies in all respects, except, having no capital, the earnings all go to the surplus. A peculiarity of the different methods of doing business is that the mutual companies which take the largest premium deposit and the companies which specialize on a class of business make the lowest net insurance cost

and accumulate the largest amount of business, assets and surplus.

The policy-holders' liability varies in every class of company, and frequently as between the companies of a class. The liability is a premium note or a contingent liability named in the policy contract, and varies from one to ten times the premium deposit. Two prominent mutual companies have no policy-holders' liability. This applies to the advance premium mutuals. The assessment mutuals, principally the farm mutuals, have an unlimited liability, though this is not essential, and they wisely could use a limited liability, as is provided in the model farm mutual law.

In the past, the mutual system for fire insurance has not given much attention to the theories and practices that experience shows must govern successful companies. The problem of running a company looks so simple

that almost any one has been selected as manager, or, too frequently, elected secretary. The boards of directors rarely know insurance, and some do not comprehend the moral, if not legal, responsibility they assume in their position.

This is rapidly being changed. The directors are selected business men acquainted with the "human element" in the insurance written, and they look to the manager to handle profitably the "physical element" of the business. The manager, instead of being elected, is being appointed for his ability and experience. Better salaries are being paid, so that the business has now some very bright talent and is fast becoming an attractive field for insurance men. While the figures show the ratio of failures among mutual companies to be less than among stock companies, it must be admitted that a great many companies have

been only mediocre. They attain a certain result and remain content to maintain that record. Like the stock companies, their past history has not shown the possibilities that exist in the fire insurance business.

A curse of the mutual business has been the word "cheap." Trying to sell cheap insurance only cheapens the indemnity. Mutual insurance represents the cost at which a property can be insured under the most favorable conditions, and it is not a comparison of lowest or highest cost competitors may charge. The cost a certain mutual company can make is according to the ability of the management and methods of the company. Competition can not make the cost of a mutual company.

One curse of "cheap" is in the expenses. There are companies, particularly farm mutuals, which seem to have the conception that small ex-

penses is the distinguishing feature of mutual insurance. Such a company is merely a collection agency from the many to relieve the unfortunate few. It does not seem to comprehend that the property owner looks to insurance to avoid the calamity of a fire, and that he is apt to appreciate more the assistance of preventing a one hundred per cent. loss than he is to appreciate the indemnity of eighty per cent. of the value. Always the assured pays the cost, and the body of policy-holders would rather have their property preserved with a low insurance cost than have a higher insurance cost through unnecessary fires. It is the result and not the items which interest the policy-holder.

One need of mutual insurance is reinsurance facilities, and that needs to be something besides merely the placing of excess lines. Using the farm mutuals as an example, they are

companies generally too limited in territory and hence do not have a volume which, insurance men would say, gives a good average. The business offered induces the writing of maximum policies much above the average policy. Unfortunate losses certain years, make an undue fluctuation in the loss ratio. In spite of unfortunate years, one can get a good average cost over a series of five or ten years, but the insured unluckily does not follow the law of average and listens to competitors when the cost is high. A reinsurance policy, which would protect against the occasional unfortunate year, would stabilize the insurance cost to the policy-holder and be a security to the company. This is a problem of average, statistics and experience just as much as other problems handled by insurance.

The handicap of mutual insurance is a lack of mutual capacity to fill the

demand for such insurance. This demand is being filled in part by companies extending their lines of operation through accepting lines from other successful offices. This course needs to be extended in several directions, and there is a need to organize more mutual fire insurance companies in several lines of industry.

Another need of mutual insurance is to keep the business mutual. There is an inclination to imitate the stock companies in using non-participating policies and in using agents. Both of these practices have been in existence for a number of years but the assertion is made that it is not the best method. Properly, mutual insurance is a direct transaction between the property owner and the company. Success depends upon inspection and selection, with cooperation to carry out fire prevention, and a participation as well as a liability in the results.

The non-participating (cash) policy has no distinction from the stock company policy in the mind of the assured, and neither the insured nor the insurer gives as much attention to the benefits of inspection as under the participating policy. A mutual company, with the assets required in the Uniform Mutual Law, may have a department devoted to the non-participating policy for the purpose of making a profit, supposed to reduce the cost on the participating policies. This is only a counterfeit of the stock system, which as a whole has demonstrated that there is considerable delusion as to stock company profits. The question is whether all the efforts concentrated on participating insurance would n o t produce better business.

A business has to have salesmen. The consumer will not seek the economy of dealing directly with the pro-

ducer. Thus fire insurance requires salesmen, and experience has shown that a commission compensation is best for the stock company system. There is no question that the salaried salesman is better for the mutual system. The salaried man is more prone to select the business, uninfluenced by compensation. Commissioned agents are needed, however, in some cases. It would be better if sufficient mutual capacity were furnished mutual agents and no affiliation had with stock agents. A mutual agent should have a direct interest in the company, and that interest can easily be rewarded. Mutual companies should avoid agency connections that would form a class or contend with one system against the other. If the agent does not comprehend the purpose of fire insurance as a service for the property owner, but organizes and dictates for his own interest, there

will be the sentiment that is felt today about union labor, which sees its interest but not the interest of the whole. The dictation of a part is like taking hold of the tail to wag the dog. It irritates the dog.

Mutual men are prone to be agitated over competition, and allow themselves to be kept on the defensive. In any business, to meet competition it is not best to dwell on the defects of the competitor. Lack of the facts too often proves a boomerang. This is illustrated in the occasional editions put out, of undated and unsigned anti-mutual literature, filled with falsehoods, misinformation and ignorant statements. These anonymous circulars are the best of soliciting arguments for mutual men, but, be it said for the moral caliber of local agents, so few of them will use the circulars that it is difficult to get a desired supply. Erroneous statements against

one give the best opening to present his argument.

As the word "cheap" should not be in the mutual insurance vocabulary, so also should be dropped the words "dividends" and "assessments." This applies to the advanced premium mutuals. A premium is a specified sum paid for protection for a specified length of time. A "premium deposit" on a mutual policy is no guarantee that the sum is adequate or inadequate for a given length of time. It, of course, is supposed to be loaded, like the rate of a stock company, for more than will be needed. The universal experience is that, at the end of the policy period, the "premium deposit" will not have been all used. The unused portion is returned as the "savings" but not as a "dividend." It is not legal to pay dividends out of the principal, or what is not an earning of the principal. To extend the

insurance for another period, an "assessment" is not made. Enough is collected merely to restore the "premium deposit." Competitors harangue more about "assessments" than about the mutual system.

Mutual insurance has held its own for two hundred and twenty-five years, unincumbered by capital,—and fire prevention, now as at the first, is its motto. Its patrons number into the many hundreds of thousands. Its only foe is the stock competitor. Mutual fire insurance is a permanent fixture in the commercial life of this nation, but it must not remain fixed. It must grow with the growth of the people, who will continue always to recognize an honest endeavor to serve them.

CHAPTER VI

STATE INSURANCE

THE Sun Fire Office is the oldest stock company in existence. It was organized in the year 1710. In 1711 there was introduced a proposal in the House of Commons for "'setting up and appointing a National Insurance Office,' it being provided that insurance of all property be compulsory and that a stop be put to all further insurances by 'Private Societies.'" It would be interesting if the Sun Fire Office would compile a record of the number of state insurance agitations it has lived through in two hundred and eleven years, while it has gone along serving the people usefully and well. The record should contain a descrip-

tion of the "emotionalists," both in and out of insurance, who theorized the cause and offered the only cure. The "emotionalist," like the poor, we always have with us, and this information is desirable, for history repeats itself, and we need to learn how large a grain of salt(s) we need to take with their remedy.

A part of the result of the World War is an agitation for public ownership. This "agitation" does not come out in the open and show where it is, and so has to be surmised. A self-appointed General has smelled the "Taint of Communism" in the left wing of the insurance army, and so is fortifying every stronghold of the right wing and shooting off his ammunition at the left wing with so much noise that "agitation" can note every weak spot and know where to attack when the time for real conflict arrives.

"Where there is smoke, there is some fire." While one can question the immediate danger of fire insurance being owned and operated by the state, it is always well to be on guard and marshal all the forces possible against a common foe. To do this needs preparation and honest discussion, needless at this time but for the effort being made at a division in the insurance business.

Socialism and communism, boiled down and skimmed of the scum means common ownership used for a common benefit, under the direction of a governing few. To socialize fire insurance would seem to be the insuring of every one and everything, regardless of the character of the ownership or character of the property.

The general grade given all classes of insurable property by all insurance companies is as "good," "fair," and "poor." The stock companies have

the virtue of insuring all grades of property, if satisfied with the rate. The mutual companies insure the "good" and the "fair." The larger the per cent. of business graded as "good," the better the results. A mutual company can not insure all grades and accomplish any more than the stock companies. Neither can a mutual company secure all the properties in the class of business it insures. Outside of farm properties, one-third of all the properties would be a good average. There are a large number of persons who do not want mutual insurance; and a greater number who have not constructed or kept their property up to the standard required, on which the regular saving could be made. Then there are a larger number of persons, educated to put the responsibility on the insurance company, and who are satisfied.

If there is to be state insurance, it

will be through an expressed public opinion, including the great body of fire insurance policy-holders. When the socialist and the reformer get to really examining and understanding the fire insurance business, they will find that it is the stock and not the mutual system that is adaptable to their ideas. They will find, in both systems, the policy-holder pays the bill, no matter what may be the cost. They will find both systems have been in operation over two centuries. While they may find the mutual system has existed and flourished without a "capital," they will find that it has proved defective for insuring everybody, and, hence, defective for state insurance. On the other hand, they will find the stock system is the universal system, for it adapts itself to the situation of every property owner, and has an elaborate system of ratings to create equity between prop-

erty owners and thereby is ready for adoption as the state plan.

The rights of ownership in the present insurance plant are not discussed here nor will they be when state insurance is demanded by the people. If the "agitation" occurs it will be merely a show-down whether the prevailing systems are equal to or better than state insurance. Fire insurance will be in jeopardy, and with ill feeling engendered in the fire insurance ranks, through a self-created emotion, each system will try to preserve itself.

The mutual system will have the advantage. It will claim to have accomplished on selected lines what has not and can not be accomplished on broad lines, like the stock system and state insurance. A semi-competitive insurance will be needed to satisfy the disgruntled, who object to state insurance. Then there are several million mutual policy-holders who are satis-

fied and will not care to experiment with state insurance and the mutual companies are in rather close contact with the bulk of their policy-holders on matters that affect the policy-holders' insurance.

The writer is acquainted with several hundred mutual fire and casualty insurance men, and has never heard a sentiment expressed in favor of socialism, but has heard strong sentiments against state insurance. After two hundred and twenty-five years' record these mutual men are still innocent that they are handling the entering wedge of socialism and leading to the nationalization of the business of mutual patrons. They have supposed that property owners had the right, granted by a law made by property owners, to unite for an economic advantage just as the stock insurance companies do in rating bureaus. Their motives have been for

betterment the same as the Rockefeller Foundation, The National Geographic Society, the thousands of Building and Loan Associations, and the National Safety Council, whose motto is "Organized for service—not for profit."

This is a time of agitation and propaganda. To meet the "social unrest" all kinds of ideas are being presented and some are something new under the sun, (Solomon to the contrary, notwithstanding). As never before, in this generation, constructive ideas are needed. Can it be constructive when a part of insurance which is one of the eight great divisions of the Chamber of Commerce of the United States puts out statements to slur if not slander the other part of the division? Can it be constructive when the largest insurance society in the world, organized to develop the business, invites as its star speaker a man whose

message is known to propose disruption and discord in the business as a whole? Is the public in a mood that it wants state insurance and nationalization discussed at this time? Does the insurance business want it?

A good deal of trouble is created by persons who join an organization for a certain purpose and then go off on a tangent to perform the purpose according to personal notions. Every kind and division of insurance is affiliated with the Chamber of Commerce of the United States. The Chamber has appointed a safe and sane Committee on American Ideals, which is "undertaking an educational program upon fundamental American principles," which every one recognizes as a program against socialism and nationalization of business. The committee hopes for "a return to normal without a well organized educational effort which shall make clear the

dependence of our national welfare upon sound economics and the preservation of our American institutions." "The influence and importance of such an effort will depend largely upon the source from which it emanates." The inference is that the committee desires no public agitation at this time, and, apparently posted as to what is being done, recognizes the futility of the present agitation because of the source from which it emanates—within the insurance business only.

The present field of operation, for the "emotionalists" among insurance companies and local agents, should be in the Chamber of Commerce of the United States, in which they are members. The Chamber of Commerce through admitting the mutual companies as m e m b e r s, and the Committee on American I d e a l s, through asking the cooperation of

mutual members in Americanization, are apparently ignorant of the economic evil that has existed in this country for one hundred and sixty-eight years. The Chamber of Commerce of the United States needs to be "propagandized" to throw out of the organization this corrupting influence —mutual insurance.

Be it said to the credit of mutual insurance, it has kept reasonably quiet under strong provocation. This is not the time to add to social unrest if it can be avoided, but if the stock fraternity, by open and silent approval, are planning an attack, then, mutual companies, prepare. Remember that the best defensive war is an aggressive war, and your numbers do not relieve you from counter-attacks. When a premise advanced is wrong, it is not difficult to attack it, and the "Taint of Communism" in mutual insurance is the weakest argument the

stock interests ever put out for competitive purposes. On the other hand, it is hard to fight a windmill of generalities which does not produce a single breeze of evidence as to when, where and how mutual insurance ever nationalized any business including itself in two hundred and twenty-five years.

It is a difference of opinion that makes horse racing, and has developed the perfection of the horse. A difference of opinion about insurance makes competition, and is good for the business. Extreme competition leads to inconsistent statements, which do not appeal to the cool reasoning of the insurance buyer, who is looking for stability and security. For instance, a statement that insurance protection is being furnished for less than cost is mysterious and on the face looks like collecting less premiums than necessary to meet losses

and expenses. It sounds cheap, but does it sound safe? Is the statement frankness to the policy-holders, or a "slip of the tongue" for competition's sake?

In times of depression and social unrest, the inclination of many is to look outside of themselves into the affairs of others to find a solution of the troubles. The tendency of such temperaments is to plan reform and regulation of other lines of effort than their own. Such are the chief characteristics of socialists, and they are looked upon as more destructive than constructive. There must be a more rational way to accomplish whatever is needed.

The writer's father-in-law was a well read man, but a poor church attendant to hear the rural village sermons of forty years ago. He was, therefore, impressed with and occasionally repeated the "sermon" he

once heard in a Quaker church. After many minutes of silent self-communion, (a hard task for many of us), a matron of years of experience arose and said, "Let every one attend to his own business." Now is a time when a self-communion with one's own affairs is needed and if those affairs are kept in harmony with the conditions that develop, without radical change, it will be because every one attends to his own business.

CHAPTER VII

LEGISLATION

THE uncertainty as to what legislation will be is a nightmare to all business. An insurance man has to apply his law of averages and console himself on the probability that out of the many bills presented to the legislature but few will be written into the statutes. The fear of legislation is due to the possible motive of the introducer and the inability of the legislature fully to understand the proposition. The motive can frequently be questioned, but it is not fair to question the intent of the legislator. He is elected to make the laws the people want, and it is the people who are responsible for the laws which hinder or encour-

age business. The people reap the benefit or pay the penalty arising from laws passed.

That the technical parts of all propositions are not understood is to be expected, and therefore legislation is generally on broad lines, which may discourage but not prevent doing business. Fire insurance has continued to prosper under laws that are a handicap, but the public pays the bill. Take taxes, the bugbear of every one. Taxes must be raised, and the misconception that taxes come out of the insurance company has led to loading the insurance business probably more heavily than any other business (since the Eighteenth Amendment). But what is the objection if the policy-holder could know the amount of the tax and its effect?

The chief objection to the present tax system of fire insurance companies is the inequity which is practised

against the citizens. Take the fire marshal tax. The fire marshal's office was created to prosecute arson and control property that endangered other property. To this the fire marshals are adding a general fire prevention work for the general public. This public work is carried on, not according to public need, but according to the amount of insurance carried in a state, and it is not the general public, but the insuring public that pays the tax. The same applies to many of the fire department and salvage corps laws.

By the way, Indiana of all the states has the most equitable taxation law for fire insurance companies. It taxes only the amount of money taken out of the state, and if more money is paid the citizens for losses than the premiums collected there is no tax. But that is not the chief virtue. The law encourages fire prevention, for every

thousand dollars saved from destruction by fire is conserved for general taxation purposes and, if insured, each thousand dollars of loss prevented means thirty dollars of tax paid the state treasurer. The fire insurance companies have never improved or encouraged this kind of a law, but remain content to pay regardless of the results in a state. The insurance companies devote more attention to protesting taxes than to cooperating for an equitable system.

Failure of fire insurance to come out into the open with its problems leads to failure of the public and the legislatures to understand the problems. The insurance business formerly lobbied with so much protest that, like "Big Business," its motives were questioned. In recent years the inclination is to accept and adjust the business to any condition imposed, all of which is getting nowhere.

If there is anything in state insurance the trend of events is preparing the stage fast enough. The public has long been educated to see fire insurance organizations as agencies for collection from the many to relieve the unfortunate few. It has taken over the making of the insurance contract. Inequities in rates have caused the public to regulate the rating bureaus. The insurance business is asking the state to pass on the qualifications of its representatives. The fire marshals are being encouraged to build a fire prevention system superior to that of the insurance companies.

The Department of Agriculture, under a provision of the public warehouse law, inspects cotton warehouses and feels that the rating bureaus recognize "the high moral risk in the system and of the value of Government supervision and inspection." A reduction of twenty-five per cent. in the

rate was granted. Now, the Department of Agriculture is gathering more insurance data than the leading insurance companies on public grain warehouses (elevators), and is anticipating a recognition of its inspection services. Who looks to fire insurance to perform its full functions, and what stands in the way of state insurance?

The record of the fire insurance business should stand in the way, because the people appreciate the service it has performed. But the service has not been performed. It took a handful of bright laymen, with few trained in insurance, to see the need of the hour. With only one-half of one per cent. of the fire premiums the fire marshals are giving a wonderful service to the people in fire prevention. The glory is theirs, as it should be.

With all the objection to state regulation, is there anything more incon-

sistent than to ask the state to pass judgment on the qualifications of local or special agents? And this judgment is passed on information that is but a fraction of what the insurance company could obtain, whose interests are at stake. Does the agent's qualification mean anything to the public? No. Does the record show any reduction in the fire loss ratio, in the states where the law has been passed? No. Does the law together with the resident agent law have a tendency to produce a monopolistic control of fire insurance, as against the freedom of competition? Yes. If better qualifications are needed among local agents, then give dignity to the calling and establish a school, under the approval of the state, like the rating bureaus, and have licenses granted according to the grade of the diploma. Then the harness-maker and the butcher will not

neglect their legitimate business to practise the insurance profession during idle hours. A school for local agents is needed, and the policy-holders can afford to pay the expense out of their premiums.

There is a great need of a public understanding, at least of the fundamentals of insurance. But the fire insurance business seems to have no knowledge of or confidence in human nature—the most common thing on earth. The great body of people are slow to change and do not seek a change for change's sake. It can be admitted the people are not contented with fire insurance conditions, so why not meet them on their own ground in the legislature? Put some facts before them in a form they can understand, facts which place the responsibility for insurance, its service and its cost, where it belongs. Offer and support in the legislature a resolution about as follows:

WHEREAS: The great economic need of the state, following the World War, is conservation of values, the economy of production, and the reduction of taxes, of which fire insurance is a large item, and

WHEREAS: An unnecessary loss by fire is a loss to the individual and the community, not restored by insurance, which does not replace values, but only distributes the insurance cost over its policy-holders, and

WHEREAS: The owners of property are responsible for the construction and care, and are responsible for the fires which occur in property with an insurance cost according to the amount of fires, be it therefore

RESOLVED: That the citizens of the State of ..... are urged to recognize their responsibility for the $..... fire losses in this State during 192.., a large portion of which was an unnecessary destruction of taxable

values, and made an unnecessary insurance cost burden upon the enterprising, thrifty citizens needing insurance, and be it therefore further RESOLVED: That each citizen require of the insurance interests, which sell him protection, a further service of inspection and directions as to prevention of fires according to the knowledge, experience and compiled data which the insurance companies use for their own protection.

Read such a resolution, from the legislature of a state, to a policyholder and he will accept the challenge to prove himself a good citizen. But, he is going to insert his human nature through wanting to know where he comes in if losses are reduced. The idea of a proper resolution was suggested for the fire insurance business, but according to precedents, it may be better for some active fire marshal.

CHAPTER VIII

CONCLUSION

HUMAN affairs seem to have a flow and ebb like the tide. Events glide along toward the culmination sought, when there comes a stop and a recession which leaves conditions seemingly worse than the start. Peace is the end sought, but human nature seems unable to follow the current of events without dropping back for a quarrel.

In the past thirty odd years the writer has seen three periods during which a mutual fire policy could not be sold, because of the cut rates at which the stock companies were writing. A peculiarity is that those times were all during business depression,

when the moral hazard was considered bad, and business was going off the books. No underwriter has yet explained why the stock companies will make every effort, even to the sacrifice of premiums, to keep the volume of business from being reduced in panic times.

The mutual company making its insurance somewhat near its actual cost has to stand nearly helpless when it comes to cutting rates, but the principles of mutual insurance are in the minds of the policy-holders too deep to jump at every bait offered, and the business is slow to change. Observation is that there always came a reaction, when necessity required and opportunity offered, to raise the rates to make up the loss. Mutual insurance has made its great advancements on those reactions.

We again are in a business depression, but rate regulation laws make it

difficult to slide the rates down and up at the insurance company's whim. Therefore, a new line of attack is being made by the stock interests against the mutual interests. But of all the arguments that were ever put out for competitive purposes, the present one is unrivalled. To place on a par with socialism and bolshevism and I. W. W.-ism the hundreds of kinds of cooperative efforts by millions of citizens seeking, even ignorantly, their own welfare, is offering an insult which will be remembered and used for years to come.

Local agents of the country! Look over the field carefully. Companies are only giving their silent consent to the campaign. You are exposing thousands of insurance men to ridicule who are interested in some kind of cooperative undertaking, but more ridiculous is it to question the brain capacity of your patrons interested in

cooperative efforts. You can't draw the distinction and put the word "mutual" in a class by itself. Use common sense and consult the dictionary.

This is no plea for mutual insurance. It is not being injured, but rather has already gathered enough of the crop sown to be satisfied with the prospective harvest. The trouble is, local agents, you have not made the campaign strong enough for the mutual companies' full advantage, for your reasoning and your heart are not in it. You know you are not seriously seeking the welfare of the people, but only seeking something to make competition.

The writer has longed to meet a stock company man who comprehends the fundamentals of mutual insurance.

When the World War was on, the stress of saving this country from calamity brought the full fire insur-

ance fraternity into the closest fellowship it ever had. The invisible yet fruitful work done in the conservation of property, through mutual helpfulness, for the benefit of the whole people, will long be a gratifying remembrance. Friendships were formed which others can not break with discord. There followed some recognition of a common purpose in the mutual and the stock systems for fire insurance. For several years now the National Association of Mutual Companies has had a prominent stock company man on its convention programs. But the tide has begun to ebb and there is a strong desire to leave on the shore the wrecks which strife might create. How foolish! The birth of mutual and stock insurance was so many years ago that the short time intervening only makes them twins. Twins but for having different parents, which has led to a strife

defending the family name. Yet history does not record that either system, at any time or place, has prevented the offspring of either system securing a livelihood.

Contention and strife is one of the mysteries of human nature. It was hoped the Europeans would get their fill of war, but still, with only war, instead of food for their stomachs, they are ready to fly at one another's throats. Evidently fire insurance will never be a harmonious whole, but it can be decent about the strife, and command the respect of the insuring public.

Competition has been called the life of trade, but in commerce the practice is to compete for the benefit of the patron, and where "Big Business" has made competition to destroy, the people, by legislation, have put out a restraining hand. Restrictive legislation is aimed at big organizations.

The stock insurance system has little that is competitive within itself. Its various organizations are for the purpose of imposing strict uniformity. The public can and has seen the conditions, which look monopolistic, and it is best to let alone the competition which mutual insurance offers. Let it struggle on its own merits.

The desire for a monopolistic control seems to pervade all corporations. The corporation has a power the individual fears. It seems quite possible the management of corporations gets a wrong impression of the legal purpose of their organizations. The question may be vague, but, if a law is vague, a judge of a court would interpret the law according to the evident intent of the legislature. Be the judge, as to whether the legislature granted the rights of persons to unite in a corporation so as to make more money than as individuals or to form

an aggregate of capital that then could be a more economical and better service in the peoples' interest, than the individual can render.

To read the statements of leaders in business the latter interpretation is now accepted and service to the people will naturally be followed by inincreased patronage. This should be the motive of fire insurance. The immediate answer is to look at what certain leading companies are doing; read their advertisements and see "service" most conspicuous. Take the National Board of Fire Underwriters, The Underwriters' Laboratories, and the National Fire Prevention Association which cost several hundreds of thousands of dollars, (paid from the premiums). They are doing a wonderful, valuable work, under the best efficiency in the business. The facilities of these organizations and the need of fire prevention are urged

upon the people. There is no question but that an honest effort is being made in a long neglected problem. Speakers within and without the insurance business are arousing public sentiment, and whether statistics show it or not, there must be some fire losses prevented.

But the unfortunate situation is that, in the investigation of the writer, not in any advertisement, not in any publication of an organization, not in any convention of local agents, not in any insurance journal, not in any speech of professional or layman, are the people told the value of fire prevention is to reduce fire losses and thereby a reduced insurance cost will be the reward. The people are not blind and will not continue to exert themselves that the insurance companies may profit all the more. The situation is the old one of needing to recognize human nature and interest the "pocketbook" to its advantage.

It does not seem necessary to show that an improvement to prevent a loss and receive a reduction in the rate is not all there is to fire prevention.

Human motives persist in revealing themselves. In 1919 the various insurance organizations took a great interest in the reorganization of the Chamber of Commerce of the United States. Connection with that organization is a favor and to have special recognition is an honor. The purpose of that organization is to meet and solve the economic problems of the American people to their best advantage. Insurance was recognized and was given a department. At the very first election of representatives on the Board of Directors a contention arose and a prominent "mouth piece" of the stock companies expressed the insurance human nature by claiming the stock company men "were asleep at the switch" that a mutual man was

permitted election on the Board of Directors. This sentiment has been followed by an individual conspicuous with company and five affiliated memberships, trying to create disruption—for competitive purposes—in any past harmony which has existed.

What motives is insurance to reveal for its position in the Chamber of Commerce of the United States? They can not be for self only. If the business can not at least put in the bucket as much as it tries to take out, the character of membership in that organization is such, the bucket will be emptied in the alley and then used for another purpose.

To be critical is by no means a signification of pessimism. The motive is the criterion. In discussing some of the conditions and situations of the fire insurance business, the intent has all been toward a possible improvement. Improvement is needed faster

than under the slow process of the past. There is a greater desire on the part of the people to know the details of business. Some of that desire can be termed radicalism. What answer is better than for a business to show completeness of efficient detail in the handling? What is better than to show a business flexible enough to meet any changes in human need?

The great motive, which calls to fire insurance for the best there is in it, is the economic situation of this country and of the world. The needs of the war for conservation were merely the "short pull" for the quick winning of the war. We are now in for the "long pull," not merely for conservation, but also for economy. The effect of action is not now to be confined to the individual but will extend to others.

For illustration, take the grain business. That is a business which

handles a necessary food of the people, and it must be under conditions which will meet the food situation of the world. The grain business will be efficient according to its skill of handling and cost of operation. Hence, the grain business will be able to meet world competition or supply world needs according to the conservation of its handling facilities and the amount of operating cost. Insurance is the third or fourth item in the operation cost. The insurance question is not one for the individual mill or elevator owner only, but is vital to the whole grain trade. An insurance company trying to serve the individual only is not effective enough for the needs of the grain business.

The war occasioned the organization of the Underwriters' Grain Association, an insurance syndicate which controlled the insurance capacity for terminal elevators and required coop-

eration on the part of owners in fire prevention. For two and one-half years the fire loss ratio has been equal to that of "sprinklered" properties in its smallness, but there is objection to the organization on the part of a portion of the insurance fraternity. It interferes with their control and compensation, and they offer no other solution which would be of the same advantage to the property owners.

The motives, which will be effective in the fire insurance business, are those of the men occupying responsible positions. Capital or premium notes, amount at risk or amount of premiums, are a small criterion of an insurance company. As we personally prefer certain small merchants to some of the big ones, so does the public look with favor upon those insurance companies, the motives of whose representatives they feel they can understand. We need to put our motives in the right light.

Many business practices prevent the management from acting according to its best motives. Capital demands its dividends as first consideration and gauges its praise according to the rate of increase in book value of stock. The mutual patron seeks something cheap and his demand is to beat competition or he will look elsewhere. No wonder the insurance man's reputation has been based on the amount of assets he has piled up in one case, or the amount of risk in the other case. To be the beneficiary of a few hundred stockholders or a few thousand policy-holders is the condition of holding his position. But when one gets next to the man who dares to assume responsibility, who violates union labor hours for work, whose capacity ranks above the average, one finds a man of conception bigger than the dollar. He has not worked for reputation, but for the gratification of

accomplishment. He sees in the insurance organization only the culmination of his plans. The stockholders can change, the policy-holders can change, but the insurance company will not change as long as there is retained the same management.

If then, the country's economic need, in which fire insurance is an important factor, calls for a work better than the people can do for themselves, it is not the insurance companies, but the insurance men who must put forth their best skill in a sincere service to America for the good of the American people.

THE END

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